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Mammoth Mart, Inc.

Self Service
Discount
Department Stores

Annual Report

Year Ended
February 3, 1968

DIRECTORS

Max Coffman, Chairman
Henry Gornstein
Alan D. Zaff
Frank H. Brenton
Edward Spector
Belmont Towbin, Partner, C. E. Unterberg, Towbin Co.
Daniel Coven, Executive Vice President, Treasurer and Director of Cole National Corp.
John E. Beard, Partner, Ropes and Gray

OFFICERS

Max Coffman, President
Henry Gornstein, Senior Vice President
Frank H. Brenton, Vice President and Treasurer
Alan D. Zaff, Vice President, General Merchandise Manager and Secretary
Edward Spector, Vice President—Financial
Irving S. Getz, Vice President—Advertising
Erwin H. Stone, Vice President—Operations
Nathan Levine, Vice President—Merchandising
Louis Zax, Vice President—Merchandising
Sumner T. Bernstein, Clerk

CORPORATE COUNSEL

Ropes and Gray, Boston, Mass.

AUDITORS

Ernst and Ernst, Boston, Mass.

TRANSFER AGENTS

State Street Bank and Trust Company, Boston, Mass.
Irving Trust Company, New York, N. Y.

REGISTRARS

The First National Bank of Boston, Boston, Mass.
The Bank of New York, New York

EXECUTIVE OFFICES

321 Manley Street
West Bridgewater, Mass. 02379

Mammoth MART
SELF-SERVICE · DISCOUNT DEPT. STORE

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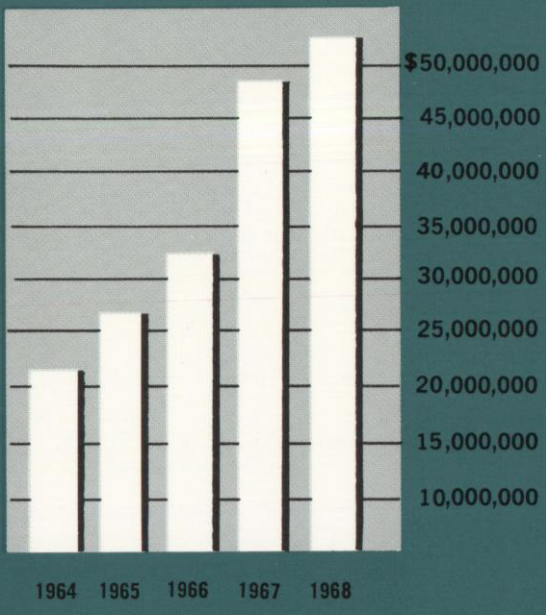
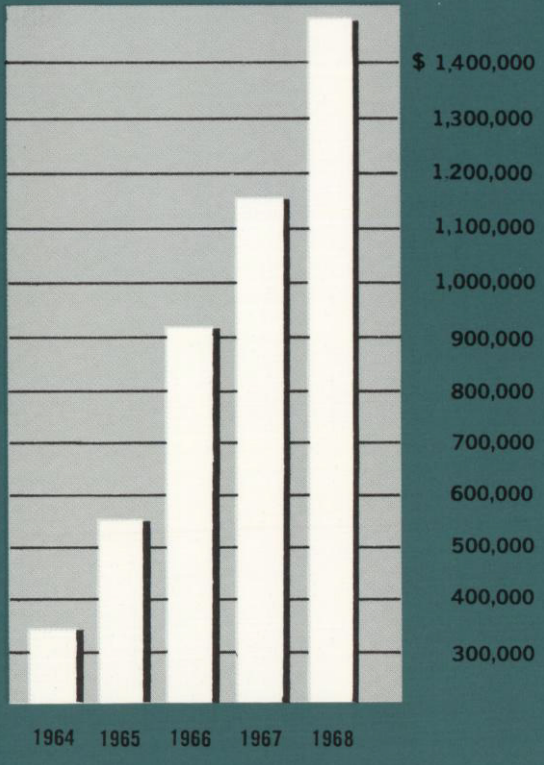
TOTAL SALES

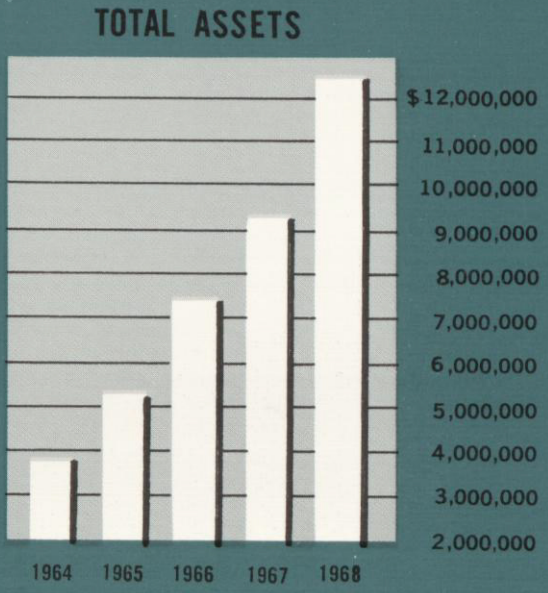


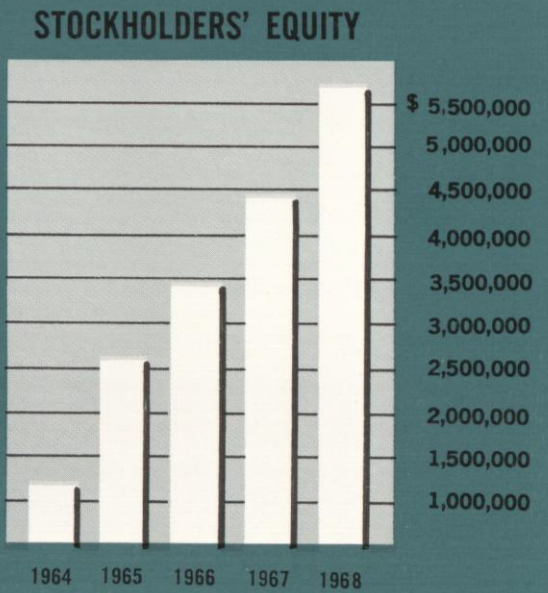
NET EARNINGS



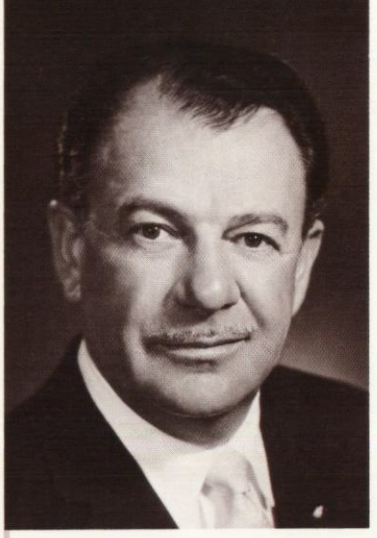
FINANCIAL HIGHLIGHTS

	For the Year Ended February 3, 1968	For the Year Ended January 28, 1967
Total Sales	**$53,148,137**	$44,042,368
Earnings before Federal Income Taxes	**$2,610,874**	$2,052,078
Net Earnings	**$1,495,874**	$1,172,078
Net Earnings Per Share (based on average shares outstanding during year)	**$2.07**	$1.65
Book Value Per Share	**$7.86**	$6.15
Average Number of Shares Outstanding During Year	**722,118**	710,705
Total Assets	**$12,531,694**	$9,182,859
Working Capital	**$4,906,446**	$3,353,068
Stockholders' Equity	**$5,694,337**	$4,383,995
Cash Dividends Paid	**$264,816**	$208,260





REPORT
OF THE CHAIRMAN AND PRESIDENT



Max Coffman,

April 20, 1968

Dear Shareholder:

During the year just ended, Mammoth Mart, Inc. continued its pattern of growth and expansion, a pattern which has permitted me, in each year that we have been a public company, to report to you that we have achieved new records in both volume and profits.

More important, however, is that, as in previous years, we continued to concentrate our efforts not only on operating our business efficiently and well, but also on planning for the future so that our record of success might continue.

The numbers speak for themselves. In the twelve months ended February 3, 1968, our sales totaled **$53,148,137,** pre-tax earnings were **$2,610,874** and net income after taxes was **$1,495,874,** equal to **$2.07** a share on **722,118** average number of shares. In the prior fiscal year, we earned $1,172,078, or $1.65 a share, on total sales of $44,042,368. These figures reflect increases of **21%** in sales and **25%** in earnings.

On April 8, 1968, the Board of Directors voted a 25% stock dividend giving effect to a **five-for-four stock split.** This dividend is payable on May 15, 1968 to stockholders of record on April 19, 1968. It was also voted to retain the quarterly cash dividend of 12½c per share on the new stock which, on an annual basis, represents an **increase of 25% over the prior rate.**

In the past five years (including the past three in which we were a public company), our sales have increased from $22 million to more than $53 million, and net income rose from $338,821 to $1,495,874.

To achieve these accomplishments in the "prosaic" retailing field does not just happen . . . it reflects the efforts and the abilities of a great many people, and in this year's annual report I thought I would picture for you some of the people who have performed so well for us. While their accomplishments are satisfying in and of themselves, I also believe they deserve the very specific public recognition they are now receiving.

In 1967, as in prior years, Mammoth Mart again recorded one of the highest net profit margins on its own sales in the entire retailing industry. Where many of our competitors are happy to record a profits-to-sales ratio of around 2-2½%, Mammoth Mart in 1967 recorded a net margin on its own sales of about 3½%. This ability to operate profitably while still providing our customers with the excellent values which are the hallmark of the typical Mammoth Mart store underlies our program of moving toward 100% operation of all Mammoth Mart departments. In 1967 we opened five new units, all of which are 100% Mammoth Mart operated, with no lessees, and we believe that within the foreseeable future the entire Mammoth Mart chain will function in similar fashion.

Our expansion plans in the past have been reasonably conservative we believe. They have involved extensions of our particular administrative, buying, marketing, and distribution skills to contiguous areas (geographically), with special care being placed on good, tight, old-fashioned managerial control of our business. Today, our sales are running at a rate of more than $60 million annually and we operate 23 stores in the New England area (5 years ago we had 8); we believe that our next five years will prove as rewarding as have the past five. We intend to continue to open new stores in attractive and profitable locations – our current plans call for the opening of at least five units in 1968 – but our greater financial resources and enhanced management staff make the consideration of growth through acquisitions a great deal more realistic than was the case several years ago. We would not be averse to adding an existing store, or group of stores, to the Mammoth Mart chain where such an acquisition would provide the twin benefits of adding to our earning power and increasing our merchandising effectiveness. Our primary concern in appraising the numerous possibilities which are regularly brought to us is the quality of the management, and the fairness of the price required to make the acquisition. It is always difficult to foretell the specific results of such investigations, but I think it reasonable to anticipate the probability that a portion of our expansion in the next five years or so may well come via the purchase route.

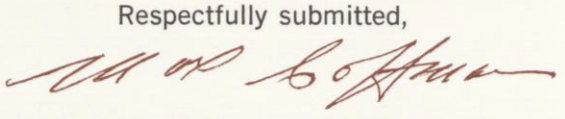
Subsequent to the close of the year, we moved into a new headquarters building in West Bridgewater, Massachusetts. This new facility encompasses 60,000 square feet, half of which is office space, and half of which embodies facilities for warehousing. We intend to utilize this warehousing space to test new methods of distribution well in advance of full-scale utilization for the entire chain.

In looking at a year such as that just ended, in retrospect it is easy to see that we have been setting the stage for a new, and accelerated, expansion stage. We have added to our top and middle-management groups, have arranged for new space from which to manage our growing business, and have continued to actively move beyond our previous geographic bounds. An example of this is the two new stores we opened in New Hampshire this past year, our first ever in that state. Several years ago we had set as an internal target the $100 million level, based on 40 stores, to be achieved by the early 1970's. We are well embarked toward that goal, which may be attained sooner than we had originally planned.

In any case, I look forward to reporting on our progress as we move toward our new horizons.

As always, my thanks go to all our friends everywhere for their confidence and support.

Respectfully submitted,



Max Coffman,
Chairman and President

'67 ...Year of Achievement

The half-way mark in our five-year growth plan was achieved this year as Mammoth Mart stores generated sales volume of over $53 million dollars. We are very proud of this accomplishment as it brings us closer to our $100 million dollar target for the early 1970's.

During 1967, we opened five new Mammoth Mart discount department stores, adding a total of 256,000 square feet to bring our total floor space to 1.3 million square feet. We expect to add another quarter-of-a-million square feet during the current year, which would bring us up to the over 1½ million square feet mark by the end of fiscal 1969.

As mentioned previously, each of the new stores we opened this past year was completely operated by us – there were no concessionaires in the stores. These moves also marked our entry into the State of New Hampshire, where we now have two units, in Gilford and in Keene. These geographic expansions are typical of our move to contiguous areas where our distribution patterns can be easily extended.

The operation of the jewelry departments that we acquired at the close of last year, was most gratifying. We have expanded the merchandise lines in this area and we now operate our own jewelry departments in all twenty-four stores. Last year's results generated a substantial increase in profit contribution.

We also moved into a new headquarters building, at West Bridgewater, Massachusetts, just outside the town limits of Brockton. This was a major step for us, since it marked the growth of the company in a rather special way – we had run out of office space for our administrative staff and buying personnel, which is a direct reflection of the expansion we have enjoyed in recent years.

In addition to increased office and clerical space, we have made provision at the new headquarters building for distribution facilities. In the past, we have operated by having our suppliers ship directly to each of our operating units at our direction (in the trade, the phrase is "drop-shipping"). However, it may be that as a result of years of accumulated expertise we may be able to handle some of our own distribution more effectively, so this new space, encompassing 33,000 square feet, will be used to test new distribution methods, with a view toward implementing successful tests on a chain-wide basis. We expect to keep you informed of our progress in this area.

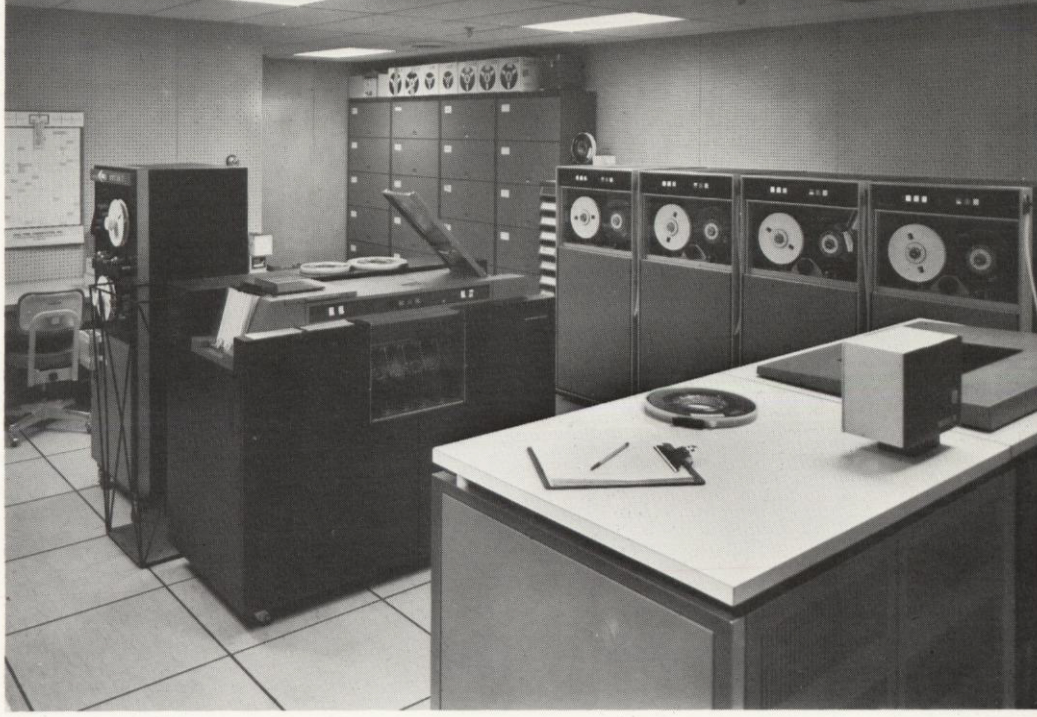
Our financial condition at the end of the fiscal year was good. Total inventories were higher reflecting the increased number of units in the company. On a comparison of like departments however, inventory levels were less than those of the preceding year.

Working capital at the end of the year was $4,906,446, and our current ratio was 2.2 to 1. Cash dividends paid during the year totaled 50 cents a share. During the year, we borrowed an additional $1 million from our insurance company lender, the proceeds of which we used primarily to finance our new store expansion.

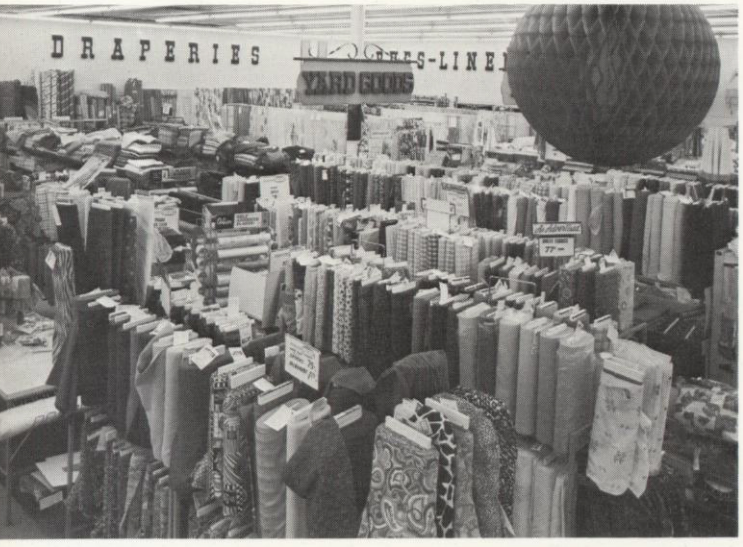
Latest styles... newest mannequins, fixtures, interior decor, and mass merchandising, gives our customers "Quality fashions at Budget Prices"

STORE LOCATIONS

Bristol, Conn.
E. Hartford, Conn.
North Haven, Conn.
Ashland, Mass.
Brockton, Mass.
Canton, Mass.
Dudley, Mass.
Franklin, Mass.
Greenfield, Mass.
Marlboro, Mass.
Raynham, Mass.
Salisbury, Mass.
Weymouth, Mass.
Worcester, Mass.
Brunswick, Maine
Bangor, Maine
Lewiston, Maine
Rumford, Maine
Scarboro, Maine
Waterville, Maine
Gilford, N. H.
Keene, N. H.
East Providence, R. I.
Johnston, R. I.



Modern new computers turn out the necessary merchandising information for our buyers to keep pace with our expansion program.



Domestic Department . . . In our last five . . . and in all future Mammoth Mart stores, this department will be company owned and operated.

Health and Beauty Aids—the newest addition to the Mammoth Mart family of owned departments.

MAMMOTH MART'S NEW HEADQUARTERS—Our new 60,000 square-foot headquarters-warehouse is located on an eleven acre tract in West Bridgewater, Massachusetts.

Mammoth Mart, Inc.

Self Service Discount Department Stores

Financial Statements

Year Ended February 3, 1968

Mammoth Mart, Inc.

and Subsidiaries

Consolidated Balance Sheet

ASSETS	February 3 1968	January 28 1967
Current Assets		
Cash	$1,045,047	$ 634,876
United States Treasury Bills – at cost	499,206	–
Accounts receivable	166,788	102,245
Merchandise inventories, at the lower of cost or market as determined by the retail inventory method	7,350,444	5,700,722
Prepaid expenses	60,633	56,390
Total current assets	9,122,118	6,494,233
Unamortized Store Opening Costs (Note B)	183,853	189,907
Other Assets	218,429	146,391
Property and Equipment, on the basis of cost		
Land	22,101	22,101
Fixtures and equipment	3,762,777	2,802,178
Leasehold improvements	240,035	193,965
	4,024,913	3,018,244
Less allowances for depreciation and amortization	1,017,349	665,916
Property and equipment – net	3,007,564	2,352,328
Total Assets	$12,531,964	$9,182,859

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 3 1968	January 28 1967
Current Liabilities		
Accounts payable	$2,434,272	$1,720,321
Dividend payable	—	52,089
Accrued payroll and other expenses	382,322	360,470
Taxes, other than federal income taxes	181,396	114,247
Federal income taxes	1,051,015	794,038
Current portion of long-term debt	166,667	100,000
Total current liabilities	4,215,672	3,141,165
Long-Term Debt, less current portion (Note C)	2,366,666	1,500,000
Deferred Federal Income Taxes (Note D)	255,289	157,699
Stockholders' Equity		
Common Stock, par value $1 a share (Note E): Authorized 1,500,000 shares Issued and outstanding — 554,748 shares (458,358 in 1967)	554,748	458,358
Class B Common Stock, par value $1 a share, convertible into Common Stock on a share-for-share basis (Note F): Authorized 700,000 shares Issued and outstanding — 169,951 shares (254,926 in 1967)	169,951	254,926
Capital Surplus	1,477,246	1,479,811
Retained Earnings (Note C)	3,492,392	2,190,900
Total stockholders' equity	5,694,337	4,383,995
Long-Term Leases (Note G)		
Total liabilities and Stockholders' Equity	$12,531,964	$9,182,859

Mammoth Mart, Inc.

and Subsidiaries

Statements of Consolidated Retained Earnings and Capital Surplus

	Year Ended February 3 1968	Year Ended January 28 1967
RETAINED EARNINGS		
Retained earnings at beginning of year	$2,190,900	$1,940,366
Retained earnings of pooled company at January 29, 1967	70,434	—
Net earnings	1,495,874	1,172,078
	3,757,208	3,112,444
Dividends:		
Cash on Common Stock ($.50 a share in 1968; $.455 in 1967)	(264,816)	(208,260)
Stock (64,844 shares at fair market value)	—	(713,284)
	(264,816)	(921,544)
RETAINED EARNINGS AT END OF YEAR (Note C)	$3,492,392	$2,190,900
CAPITAL SURPLUS		
Capital surplus at beginning of year	$1,479,811	$ 785,268
Excess of option price over par value of shares issued upon exercise of stock options	32,868	32,923
Excess of market value over par value of 41,669 shares of Common Stock and 23,175 shares of Class B Common Stock issued in connection with 10% stock dividend	—	648,440
Sundry other credit (charge)	(35,433)	13,180
CAPITAL SURPLUS AT END OF YEAR	$1,477,246	$1,479,811

The accompanying notes are an integral part of the consolidated financial statements.

Mammoth Mart, Inc.

and Subsidiaries

Statement of Consolidated Earnings

	February 3, 1968	January 28, 1967
Sales (including concessionaires')	$53,148,137	$44,042,368
Less concessionaires' sales	9,971,716	10,068,396
Sales (owned departments)	43,176,421	33,973,972
Gross rentals from concessionaires	1,211,513	1,213,394
Other income	272,495	133,472
	44,660,429	35,320,838
Costs and expenses:		
Cost of goods sold, buying and occupancy expenses	32,485,284	26,003,532
Selling, general, and administrative expenses	9,073,733	6,912,531
Depreciation and amortization	343,356	238,237
Interest	147,182	114,460
	42,049,555	33,268,760
Earnings Before Federal Income Taxes	2,610,874	2,052,078
Federal income taxes	1,115,000	880,000
Net Earnings ($2.07 a share in 1968; $1.65 in 1967)	$ 1,495,874	$ 1,172,078

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements Year Ended February 3, 1968

NOTE A – ACQUISITION OF BUSINESS

The operations of Kaye's Distributors, Inc., which was acquired in a pooling of interests during the year, were not material and accordingly the financial statements for 1967 have not been restated.

NOTE B – UNAMORTIZED STORE OPENING COSTS

Certain nonrecurring preopening costs incurred in connection with the opening of new store units, principally costs of training sales personnel, publicity expenses and advertising costs, are deferred and amortized over a period of twenty-four months commencing with the start of the store operations. New store opening costs deferred during the year amounted to $167,673 and amortization of deferred costs was $173,727 for the year.

NOTE C – LONG-TERM DEBT

Long-term debt outstanding was comprised of the following at February 3, 1968:

6¼% Note payable to insurance company due in annual installments of $180,000 beginning January 15, 1971	$2,200,000
6¼% Note payable to bank due in installments of $166,667 on January 15, 1969 and 1970	333,333
	$2,533,333
Less current portion	166,667
	$2,366,666

The related note agreements contain, among other things, limitations and restrictions as to indebtedness, lease rentals, total liabilities, working capital and cash dividends. At February 3, 1968, $1,032,700 of consolidated retained earnings were not restricted as to payment of cash dividends.

NOTE D – DEFERRED FEDERAL INCOME TAXES

For federal income tax purposes all store opening costs are expensed as incurred, and in some instances fixed assets are depreciated on an accelerated basis, whereas the financial statements reflect depreciation computed on the straight-line method. Because of these differences between tax and corporate accounting methods, the resulting variance in Federal income taxes is reflected in the financial statements as a deferred liability.

NOTE E – STOCK OPTION PLAN

The Company has a plan pursuant to which stock options may be granted to certain officers and key employees to purchase shares of Common Stock at a price not less than the fair market value thereof at the date of grant. Options granted are exercisable over a period not exceeding five years, but no portion of any option may be exercised for at least one year after the date of grant. On December 27, 1967, the Directors approved an amendment to the Plan (subject to stockholder approval) making 20,000 additional shares available for options. During the year ended February 3, 1968, options to purchase 23,775 shares were granted, options for 1,870 shares were canceled, and options for 4,799 shares were exercised. At February 3, 1968, options were outstanding for the purchase of 42,838 shares at prices ranging from $7.06 to $24.08 per share and 10,241 shares were available for future grant.

NOTE F – CONVERSION OF CLASS B COMMON STOCK

During the year ended February 3, 1968, 84,975 shares of Class B Common Stock were converted into a like number of shares of Common Stock.

NOTE G – LONG-TERM LEASES

Long-term leases for real property occupied at February 3, 1968 provided for aggregate minimum annual rentals of approximately $1,698,300 (exclusive of taxes, insurance, and other expenses to be paid by the lessee). In addition, the Company has signed leases or letters of intent to lease eight additional stores and a warehouse and office building requiring minimum annual rentals aggregating $627,000. The aforementioned minimum annual rentals classified as to the period within which the related leases expire is as follows:$124,900 prior to 1980; $1,523,900 in 1981 - 1990; $676,500 in 1991 - 1994.

ACCOUNTANTS' REPORT

ERNST AND ERNST

BOSTON, MASSACHUSETTS 02110

To the Stockholders
Mammoth Mart, Inc.
West Bridgewater, Massachusetts

We have examined the consolidated financial statements of Mammoth Mart, Inc. and subsidiaries for the fiscal year ended February 3, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings, capital surplus, and source and application of funds present fairly the consolidated financial position of Mammoth Mart, Inc. and subsidiaries at February 3, 1968, and the consolidated results of their operations and source and application of funds for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Boston, Massachusetts
March 22, 1968

Mammoth Mart, Inc.

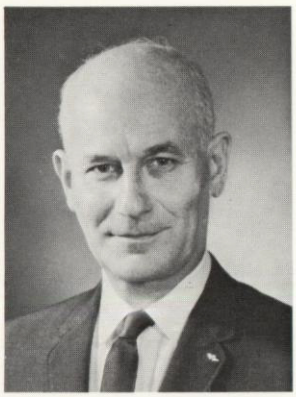
and Subsidiaries

Statement of Source and Application of Funds

	February 3 1968	January 28 1967
Working capital at beginning of year	**$3,353,068**	$3,557,634
Source of Funds:		
From operations:		
Net earnings	**1,495,874**	1,172,078
Depreciation and amortization of property and equipment	**343,356**	238,237
Amortization of store opening costs	**173,727**	141,246
Increase in deferred federal income taxes	**97,590**	83,791
Total from operations	**2,110,547**	1,635,352
Increase in long-term debt	**866,666**	–
Proceeds from sales of Common Stock, etc.	**79,284**	50,793
	3,056,497	1,686,145
Total funds available	**6,409,565**	5,243,779
Application of Funds:		
Additions to property and equipment, less disposals	**998,592**	1,268,522
New store opening costs deferred	**167,673**	256,830
Cash dividends paid	**264,816**	208,260
Decrease in long-term debt	**–**	100,000
Increase in other assets	**72,038**	57,099
	1,503,119	1,890,711
Working capital at end of year	**$4,906,446**	$3,353,068

OFFICERS

Max Coffman



Henry Gornstein

Frank H. Brenton

Alan D. Zaff

Edward Spector

Irving S. Getz

Erwin H. Stone

Nathan Levine

Louis Zax

Mammoth MART
SELF-SERVICE · DISCOUNT DEPT. STORE

5-YEAR FINANCIAL COMPARISONS

	1968	1967	1966	1965	1964
Operating Results:					
Sales (including concessionaires')	$53,148,137	$44,042,368	$32,881,416	$26,720,918	$22,204,579
Concessionaires' Sales	9,971,716	10,068,396	9,190,156	7,952,235	6,946,042
Sales (own departments)	43,176,421	33,973,972	23,691,260	18,768,683	15,258,537
Earnings Before Income Taxes and Special Items	2,610,874	2,052,078	1,564,972	947,748	517,537
Federal Income Taxes	1,115,000	880,000	659,540	383,809	178,716
Net Earnings	1,495,874	1,172,078	905,432	563,939	338,821
Working Capital, Property and Other Assets:					
Current Assets	9,122,118	6,494,233	5,769,203	3,840,518	2,576,426
Less Current Liabilities	4,215,672	3,141,165	2,211,569	1,278,248	1,818,617
Working Capital	4,906,446	3,353,068	3,557,634	2,562,270	757,809
Property and Equipment	3,007,564	2,352,328	1,322,043	1,093,837	1,000,630
Other Assets	402,282	336,298	163,615	120,764	168,398
	$ 8,316,292	$ 6,041,694	$ 5,043,292	$ 3,776,871	$ 1,926,837
Capitalization:					
Long-Term Debt	2,366,666	1,500,000	1,600,000	1,133,333	692,534
Deferred Federal Income Taxes	255,289	157,699	73,908	64,097	66,686
Stockholders' Equity	5,694,337	4,383,995	3,369,384	2,579,441	1,167,617
	$ 8,316,292	$ 6,041,694	$ 5,043,292	$ 3,776,871	$ 1,926,837
Significant Comparative Statistics:					
Net Earnings Per Share‡	$2.07	$1.65	$1.28	$ .96	$ .60
Net Earnings as Per Cent of Net Sales	3.5%	3.4%	3.8%	3.0%	2.2%
Net Earnings as Per Cent of Stockholders' Equity at Beginning of Year	34.1%	34.8%	35.1%	48.3%	40.9%
Ratio of Current Assets to Current Liabilities	2.2 to 1	2.1 to 1	2.6 to 1	3.0 to 1	1.4 to 1
Book Value Per Share††	$7.86	$6.15	$4.76	$3.64	$2.06
Average Number of Shares Outstanding During Year	722,118	710,705	708,125	590,105	566,500

‡Based on average number of shares outstanding during year.
††Based on shares outstanding at end of year.

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